

**Testimony by Paul Simons, Deputy Assistant Secretary of State  
for Economic and Business Affairs  
Before the HIRC Subcommittee on International Terrorism and  
Non-Proliferation and House Financial Services  
Subcommittee on Oversight and Investigations  
"Starving Terrorists of Money:  
The Role of Middle East Financial Institutions"  
Washington, DC  
May 4, 2005, 2:00 PM**

Madam Chair, Mr. Chairman, Distinguished Members of the  
Subcommittees:

Thank you for the opportunity to discuss with you today the U.S.  
Government's efforts with Middle Eastern governments and financial  
institutions to starve terrorists of money. This is a vital task and a high  
priority for the Department of State. Your interest and attention to this key  
area is extremely valuable and very appreciated.

First, I would like to stress that our efforts to combat the financing of  
terrorism in the Middle East use many tools, among them efforts to  
strengthen anti-money laundering (AML) regimes. I will concentrate on  
how we draw on the full range of implements in the terrorist finance toolkit  
to staunch the flow of funds to terrorists. The mechanisms we use include  
technical assistance and training, international standard setting and  
enforcement, asset freezes and other unilateral and multilateral sanctions,  
and cooperation in the areas of law enforcement and intelligence. The  
foundation for progress across these areas is diplomacy aimed at  
strengthening political will in key Middle East countries to act against  
terrorist financiers.

**SAUDI ARABIA**

We are working on this approach with many countries, but I want to  
highlight for you the range of activities in Saudi Arabia, for example, where  
we have used each of these elements in a process steered by the NSC-led  
Terrorist Finance Policy Coordination Committee (PCC). We have  
instituted a regular high-level diplomatic effort to urge enhanced emphasis  
by the Saudis on combating terrorist finance. Over the past two years,

Homeland Security Advisor Frances Townsend has traveled regularly to Saudi Arabia with the inter-agency teams to engage with the highest-level Saudi authorities on this issue. The U.S. Ambassador to Saudi Arabia and his staff reinforce these messages in their daily dialogue with the full range of Saudi officials.

Our terrorism finance cooperation with Saudi Arabia is real-time, ongoing, and fully embedded into our day-to-day counterterrorism operations. We have jointly designated, with the Saudis, over a dozen Saudi-related entities and multiple individuals for asset freeze and travel ban under UNSCR 1267. As part of a State-led interagency assistance program, Federal banking regulators have provided specialized anti-money laundering and counterterrorist financing training to their Saudi counterparts.

Saudi Arabia is making important changes to its banking and charity systems to help strangle the funds that support al Qaida and other terrorist groups. These changes have been pushed and promoted since September 11th by concerned U.S. government agencies. Saudi actions should over time significantly reduce the flow of cash to al Qaida and other terrorist groups in the region.

The Saudi Government has continued to publicize counterterrorism efforts and to speak out against terrorism. The declaration from the February, 2005 International Counterterrorism Conference, hosted by the Saudi Government, in Riyadh stated that there can be no justification for terrorism and called for greater religious tolerance. Homeland Security Advisor Townsend led a large U.S. interagency delegation to the conference and spoke at the plenary session, emphasizing the need to block the financing of terrorism. State Department's Assistant Secretary Wayne and Treasury's Deputy Assistant Secretary Danny Glaser were some of the most active participants in the working group on terrorist finance. The Saudi Government plans to establish an international counterterrorism center in Riyadh which can further international efforts at curbing all aspects of terrorism, including terrorist finance. We plan to continue to work with the Saudis on ways to make this center most effective.

Saudi Arabia is working with us in the context of the new Joint Task Force on Terrorist Financing, led on the U.S. side by the FBI. As part of the State-led interagency counterterrorist financing assistance program, experts from the FBI and IRS have completed a training module designed to strengthen

the financial investigative capabilities of the Saudi security forces, with more advanced courses to follow. That being said, this remains a work in progress. We have reason to believe that the new task force on terrorist financing will be effective but we will need to see results. Saudi Arabian Government is implementing its new charity regulations, but there too, we continue to stress in our discussions with the Saudis the need for full implementation, including a fully functioning charities commission and appropriate regulatory oversight of organizations headquartered in the Kingdom such as the International Islamic Relief Organization (IIRO) and the World Assembly of Muslim Youth (WAMY). The recent Financial Action Task Force (FATF) mutual assessment of Saudi Arabia found that the Kingdom has taken essential steps - closer bank supervision, tighter banking laws, enhanced oversight - critical to curbing terrorist financing. While we find this to be encouraging news, there is more to do, and we will continue to press ahead with our efforts with the Saudi Arabian Government and with other governments in the region.

#### OTHER GULF STATES

The governments of the Arabian Peninsula are themselves on the front lines in the war on terrorism, and have become essential partners of the United States in countering the threat of terrorism in the region. We have developed highly cooperative and mutually beneficial relations with the Gulf States in the areas of law enforcement, intelligence sharing, and terrorist finance. However, there is still more that can be done. We will continue high-level engagement and will focus on sustaining the capacity of these governments to effectively address the terrorist threat.

- The United Arab Emirates (UAE) aggressively enforces anti-money laundering regulations and enacted legislation criminalizing money laundering. In April, the UAE hosted a third international conference where ways to prevent use of the hawala (informal money transfer) system by terrorist financiers was discussed. The U.S. sent an inter-agency delegation, and speakers to the conference.
- Kuwait formed a ministerial committee to develop strategies to combat terrorism and extremism, and forbade Kuwaiti ministries and other institutions from extending official invitations to 26 Saudi clerics who reportedly signed a statement in support of jihad in Iraq.
- In November 2004, Bahrain hosted the inaugural meeting of the Middle East and North Africa (MENA) FATF, which will promote

the implementation of the FATF recommendations to combat money laundering and terrorist finance. Bahrain also hosted MENA FATF's second Plenary last month. We are impressed by the commitment expressed by its members and are confident that MENA FATF will serve to strengthen the ability of the Gulf and North African regions to combat terrorist financing.

- Oman has implemented a tight anti-money laundering regime that monitors unusual transactions. Financial institutions plan to verify customer identities using sophisticated biometrics technology.
- Qatar has enacted laws to combat terrorist financing and to monitor all domestic and international charity activities.
- The Gulf States have made significant progress to improve their ability to counter terrorist financing and have worked closely with us in this area. These nations have diligently enforced financial sanctions from the UN 1267 Committee.
- We have conducted Anti-Terrorism Assistance (ATA) programs with all of the Arabian Peninsula states.

At the other end of the spectrum are our efforts to deal with state sponsors of terrorism in the Middle East. In Syria we have made use of the designations of the Commercial Bank of Syria as a 'primary money laundering concern' under Section 311 of the USA PATRIOT Act to improve banking controls and spur compliance with international anti-money laundering and terrorist finance standards. We are beginning to see improvements in the Syrian anti-money laundering and terrorist finance regime but more needs to be done.

## SOUTH ASIA

South Asia, and especially Pakistan, is a priority region for counterterrorist financing, due to the presence of al Qaida and other terrorist groups, porous borders, and cash-based economies that often operate through informal mechanisms, such as hawala. All countries in the region need to improve their terrorist financing regimes to meet international standards, including the establishment of functioning Financial Intelligence Units (FIU). Both political will and more technical assistance are needed to make countries in this region more effective partners.

Turning to Pakistan specifically, we welcome the concrete actions it has taken in response to UN Security Council Resolutions, including the freezing of over \$10 million of al Qaida assets. We are encouraged by

Pakistan's concern about the infiltration of terrorist groups into charitable organizations and would welcome the opportunity to provide technical assistance to help Pakistan meet international standards on preventing abuse of the non-profit sector. We have provided assistance on drafting an Anti-Money Laundering/Terrorist Financing Law that meets international standards, but this legislation has not yet been passed. As soon as a law that meets international standards is enacted, we will be able to accelerate and increase training efforts, including assistance for the establishment of an FIU.

## FATF

The Financial Action Task Force (FATF) continues to provide critical guidance on the development of comprehensive regimes to attack the full range of financial crime, including terrorist financing. The FATF added a ninth Special Recommendation on Terrorist Financing (to those approved in 2001), addressing the problem of cash couriers. It also continued its efforts to clarify and refine these Special Recommendations by publishing interpretive notes and best practices guidelines to help regulators, enforcers, financial institutions and others better understand and implement the most technical recommendations.

The FATF also continued to work closely with the IMF and World Bank to develop a common methodology to incorporate FATF's recommendations into the financial sector reviews all three entities undertake. The FATF-style regional bodies (FSRBs) worked throughout the year to adapt the recommendations to their particular regional requirements. The FATF approved two new FSRBs in 2004, (bringing the total to eight FSRBs): the Eurasian Group (EAG) and the Middle East and North African Financial Action Task Force (MENAFATF). The EAG was inaugurated on October 6, 2004 by six member states: Belarus, China, Kazakhstan, Kyrgyz Republic, Russia and Tajikistan. Seven jurisdictions and nine international organizations were admitted as observers. The EAG held a plenary session in Shanghai in April. The fourteen founding members of MENAFATF are Algeria, Bahrain, Egypt, Jordan, Kuwait, Lebanon, Morocco, Oman, Qatar, Saudi Arabia, Syria, Tunisia, the UAE, and Yemen. The group was inaugurated on November 29, 2004, and held its inaugural plenary meeting the next day. As mentioned previously, it held a plenary session in Bahrain the week of April 11.

## INCSR AND THE MIDDLE EAST/NORTH AFRICA COUNTRIES:

The 9/11 Commission praised the 2004 International Narcotics Control Strategy Report (INCSR) volume on Money Laundering and Financial Crime as a very good global guide to what individual countries were doing to combat terrorist financing, particularly, the specific actions each country has taken to develop the legal foundation and requisite institutions to establish a comprehensive anti-money laundering regime capable of thwarting terrorist financing. For each country, the INCSR also notes what specific actions are necessary for the country to take to remedy any deficiencies in its anti-money laundering/counter-terrorist financing regime. I would like to provide you with an overview of the progress countries in the Middle East, South Asia and North Africa have made in committing to the global effort to thwart terrorist financing and in developing the institutions that would enable them to honor their international commitments in that regard since 9/11.

From Afghanistan to North Africa, there has been significant progress achieved over the last few years in terms of capacity building in the area of anti-money laundering and terrorist financing. Prior to September 11, 2001, only two countries in the region had criminalized money laundering beyond drugs; no country had criminalized terrorist financing; no country had a Financial Intelligence Unit; and only one country had ratified the UN Convention for the Suppression of the Financing of Terrorism.

Following the events of 9/11, the State Department led an interagency effort to provide training and technical assistance to this region on a priority basis. Today, fifteen of the nineteen countries identified by NSC as being the most vulnerable countries to the financing of terrorism have criminalized money laundering beyond drugs; eleven have also criminalized terrorist financing; six have a financial intelligence unit; and seven have ratified the UN Convention for the Suppression of the Financing of Terrorism. Only Israel has criminalized money laundering beyond drugs, established a Financial Intelligence Unit (now a member of the Egmont Group), criminalized the financing of terrorism and ratified the UN Convention for the Suppression of the Financing of Terrorism.

## CAPACITY BUILDING

On the technical assistance front, the Terrorist Finance Working Group (TFWG), chaired by the State Department, has over \$11.5 million in Foreign Assistance funding to provide technical assistance and training to develop and reinforce counterterrorist financing/anti-money laundering regimes of frontline states. To date, over twenty U.S. Government offices and agencies participating in the TFWG, which include the Justice, Treasury and Homeland Security Departments, have provided assistance to eighteen countries on five different continents. These comprehensive training and technical assistance programs include legislative drafting, financial regulatory training, Financial Intelligence Unit development, law enforcement training, and prosecutorial/judicial development.

We have provided several countries in the Gulf and South Asia with different types of training related to sound counterterrorist finance practices, including the detection of trade-based money laundering (moving money for criminal purposes by manipulation of trade documents), customs training, counterterrorist finance techniques and case studies for bank examiners, and general financial investigative skills for law enforcement/counterterrorist officials. We continue to provide assistance in developing the institutional capacity to thwart terrorist financing to other vulnerable jurisdictions in other regions and continue to encourage others to join us.

For example, for the countries targeted in the President's East Africa Counter-Terrorist Initiative (Tanzania, Kenya, Uganda, Ethiopia, Eritrea and Djibouti,) we are working cooperatively with the United Kingdom, the E.U. and the United Nations Global Programme Against Money Laundering, that has placed a year-long mentor in the region to assist in developing robust anti-money laundering regimes capable of thwarting terrorist financing. Frankly, the work in this region progresses slowly but we are confident that we will ultimately be successful.

The UN, particularly its 1267 Committee, provides a global forum for our efforts to counter terrorist financing. The 1267 Committee has listed over 400 individuals and entities associated with the Taliban, Usama bin Laden, or al-Qaida who are subject to UN sanctions, including asset freezes. The U.S. is one of forty-nine governments that have proposed names for this list. In addition, the Committee has a Monitoring Team that has visited over thirty countries in 2004 and 2005 to both check on compliance with UN

requirements and offer guidance to governments which are having difficulty fulfilling their UN obligations.

## CONCLUSION

These are just a few examples but they are illustrative of our use of coordinated interagency multidisciplinary strategies throughout the region to block the funding of terror. A key conclusion of the 9/11 Commission was that agencies need to break down the walls that divide them, share information more broadly among themselves and come up with integrated strategies to combat terrorism and terrorist finance. This is the approach we are taking, using the NSC-led Terrorist Finance PCC process, in the Middle East and worldwide, and the one that we believe is most likely to have maximum impact in cutting funding of terrorists.